

## **NATIONAL MINIMUM WAGE REGULATIONS 1999 (AMENDMENT) REGULATIONS 2002**

### **Introduction**

1. This assessment estimates the costs and benefits of the proposal to raise the national minimum wage rate for adult workers aged 22 and over from £4.10 to £4.20 an hour and for workers aged from 18 to 21 from £3.50 to £3.60 an hour.
2. In 1997, the Government appointed an independent body, the Low Pay Commission (LPC) to make recommendations on the appropriate rates for the minimum wage, to monitor its implementation and to evaluate its impact. The LPC published its third report in two parts in March and June 2001. In these reports, the LPC recommended that there should be significant rises in the minimum wage in October 2001, with the development rate increasing from £3.20 to £3.50 and the adult rate increasing from £3.70 to £4.10. The Government accepted these recommendations in full.
3. The October 2001 increases were proposed by the LPC as part of a package that included a further 10 pence an hour increase in the adult and development rates of the minimum wage to £4.20 and £3.60 respectively in October 2002. The Government accepted this recommendation subject to the economic circumstances at the time.
4. The DTI duly carried out an assessment of the economic conditions in April 2002 to ascertain whether the further 10p increase should go ahead in October as recommended by the LPC. The assessment concluded that the economic conditions in the autumn of 2002 could be expected to support an increase of 10 pence per hour in the national minimum wage. On this basis, the Government announced on 15 April 2002 that it proposed to go ahead with the LPC's recommendation taking the minimum wage rates to £3.60 and £4.20 an hour in October, and placed a note on the economic evidence in the libraries of the Houses of Parliament.

### **Purpose of the proposal**

6. This amendment raises the minimum wage rates from £3.50 to £3.60 for the development rate and from £4.10 to £4.20 for the adult rate, as suggested by the LPC.

### **Low Pay Commission assessment**

7. The LPC's third report analysed and evaluated the impact of the minimum wage on the economy, on the labour market and on particular sectors and groups of workers. It was the result of intensive research, evidence-gathering and statistical analysis. This Regulatory Impact Assessment therefore draws on the LPC's work as well as the DTI's own assessment of the economic conditions in April 2002.

### **Costs and benefits**

The proposed rises to £3.60 and £4.20 represent a rise of 2.8 per cent for the development rate and a rise of 2.4 per cent for the adult rate over a period of a year, and so its impact on the overall wage bill of employers, while impossible to measure

accurately, will be extremely small. On the other hand, a rise of up to 10p an hour will make a real difference to those workers who are still being paid at the National Minimum Wage rates set in October 2001.

We estimate that around 1.5 million workers stood to benefit from the uprating of the National Minimum Wage in October 2001. In the absence of data on what proportion of these workers would still be earning £3.50 and £4.10 an hour without any statutory uprating, we start with the assumption that all 1.5 million workers stand to benefit directly from the statutory 10p increase in the minimum wage in October 2002. In this case, assuming the average worker benefiting from the minimum wage increase works an average of 26.4 hours per week<sup>1</sup>, the maximum benefit to workers on low pay would be around £205 million in the first year, equivalent to over £135 before tax per worker. Adding on non-wage costs, the maximum cost to employers would be around £225 million in the first year. If this were the case, the increase in wage costs as a direct result of the minimum wage would represent an increase of 0.05 per cent in the economy's total wage bill.

These figures are based on the Low Pay Estimates from Spring 2001, produced by the Office for National Statistics (ONS) and relating to a period that is 18 months before the proposed October 2002 uprating of the Minimum Wage. When data from the 2002 New Earnings Survey is released in October 2002, the ONS will produce new Low Pay Estimates and it will be possible to estimate more accurately the impact that the uprating of the minimum wage is likely to have on people's pay.

It is likely that this new data will show the direct impact of the uprating on the wages of low-paid employees to be substantially less than the estimate contained in this RIA. The main reason why most workers who were earning less than £3.50 and £4.10 in October 2001 may not benefit directly from the 10p rise is because they will in any case have had their pay uprated by 10 pence an hour or more by October 2002. However, there will be a large but unknown number of people who will have received no pay rise between October 2001 and October 2002, whilst some other workers will have had their pay uprated to a level somewhere between the old and the new rates.<sup>2</sup>

The proposed minimum wage rises are similar in magnitude to the expected increase in retail prices over the same period. If we were to assume that in the absence of any statutory wage rises, the wages of all those who earned the minimum wage in October 2001 would be uprated by their employers in any case so that they keep pace with increases in the cost of living, then the direct increase in businesses' costs as a result of this proposal would be negligible.

### **Impact on small firms**

The impact on business as a whole and small firms in particular is expected to be minimal.

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<sup>1</sup> The figure of 26.4 is taken from the grossed New Earnings Survey for April 2001, when the average weekly basic hours worked (excluding paid overtime) for all workers aged 18 and over and earning less than the average of £4.10 and £4.00 was 26.4.

<sup>2</sup> In addition, a small proportion of workers may not benefit from the uprating of the minimum wage since their employers will fail to comply.

### **Impact on competition**

The increase of 10 pence an hour will have no impact on competition.

### **Monitoring and review**

The LPC has been asked to continue to monitor the impact of the minimum wage. The Government announced new terms of reference for the LPC on 12 June 2002 and has asked the LPC to report again by the end of February 2003.

### **Declaration**

I have read the Regulatory Impact Assessment and I am satisfied that the balance between cost and benefit is the right one in the circumstances

**Signed by the Responsible Minister:**

**Date:**

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